MONTHLY **INVESTMENT OUTLOOK** | MAY 2025

KEY POINTS

After a strong start to the year, the S&P 500 reached a record high in February before beginning to retreat. A combination of tariff uncertainty and overly optimistic investor expectations caused the market to fall 19% from its mid-February peak, coming close to bear market territory. When the new Administration softened its tone on tariffs, markets quickly reversed course, rebounding more than 10% in a short span. By month-end, the S&P 500 was nearly unchanged.

In the midst of this volatility, diversification has aided portfolio performance. International stocks outperformed U.S. stocks as investors diversified away from the U.S. technology sector and repatriated funds to their home countries, contributing to a weaker dollar. Although equities are lower year-to-date, the other four major asset classes (bonds, real assets, alternatives, and cash) have all delivered positive returns. Gold, which protects portfolios in times of uncertainty and currency debasement, soared 25%.

U.S. FISCAL POLICY: MAJOR CHANGES IN TRADE AND BUDGET POLICY: The new Administration has embarked on the most substantial shift in U.S. trade policy in last forty years. The use of tariffs to correct trade imbalances has created economic uncertainty. Potential trade deals are on the horizon with the UK, India, Japan and South Korea that if completed, would be incrementally positive to markets. Congress is working on a major budget reconciliation bill that would preserve the 2017 tax cuts, exempt taxes on social security, tips and overtime, and lift the debt ceiling. The goal is to have a bill on the President's desk to sign before the August recess.

FEDERAL RESERVE: MARKET IS PRICING IN RATE CUTS: The Federal Reserve faces a more difficult trade-off between protecting growth that is slowing by cutting interest rates and reigning in inflation that is likely to rise in the next six months. The market has reduced the expected number of Fed rate cuts this year and now sees the next rate cut coming in July.

VALUATIONS BACK TO ELEVATED LEVELS: Following the market rebound, valuations for the S&P 500 have risen back to 21 times forward earnings, up from a low of 19 times in April, and are well above the long-term average of 16 to 17 times. Given these elevated price-to-earnings multiples at a time when earnings estimates are falling, investors should moderate their expectations for equity market returns. Especially after gains of over 20% in each of the past two years.

ASSET ALLOCATION: For investors, now is a good time to stay balanced and focused on long-term goals. At Central Trust, we build diversified portfolios with five major asset classes to enhance returns and lower volatility. Key challenges include policy uncertainty, sticky inflation, reshoring of supply chains and high global debt. We favor balanced positioning with a quality tilt as equity valuations are elevated and bonds provide a solid income cushion. Gold and alternatives further strengthen portfolios by reducing volatility and enhancing returns.

KEY TAKEAWAYS FOR INVESTORS:

- Markets are expected to remain volatile amid persistent uncertainty surrounding U.S. trade negotiations.
- A prolonged negotiation process will likely weigh on economic growth and could lead to rising inflation, creating additional challenges for the Federal Reserve in setting policy.
- Bonds provide income, diversification, and downside protection for portfolios during recessions.
- Long-term investing success relies on diversification, balanced asset allocation, and staying focused on your long-term goals.

SUCCESSFUL INVESTMENT PRINCIPLES: FOCUS ON THE LONG GAME

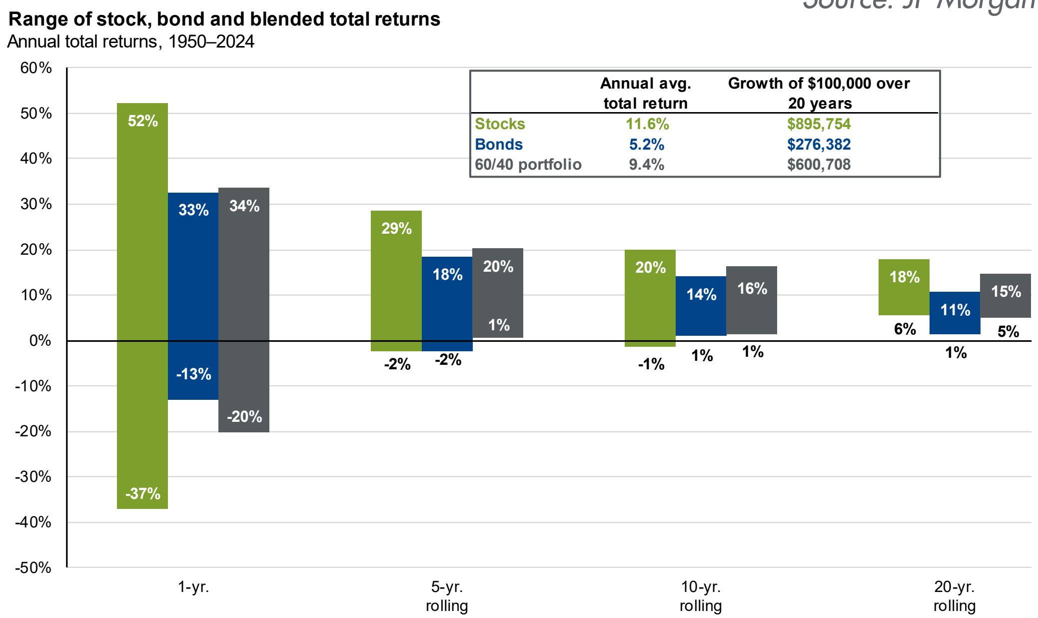
Successful investors maximize the odds of success by focusing on the long term and maintaining a long-term investment plan based on their goals. Studies show individual investors significantly underperform the broad stock market. Individuals are more likely to be driven by emotions that lead to reducing equity and risk assets after market declines during times of volatility.

By taking a multi-year view, investors stack the odds in their favor of achieving investment success and achieving their goals. As can be seen in the chart below, over any one-year period the annual return for the S&P 500 can be volatile with returns from -37% to +52% since 1950. Over any 5-year period, the range shrinks to -2% to +29%. Most importantly, there has never been a twenty-year period since 1950 where equities have experienced losses, as returns ranged from +6% to 18% per year for the S&P 500.

For balanced accounts, data shows that there has never been a rolling 5-, 10-, or 20-year period where a simple 60/40 portfolio of stocks and bonds had a negative return. Overall, from 1950 to 2024, a 60/40 portfolio compounded 9.4% per year. The lesson here is that the more time you have and the more diverse your portfolio, the less risk there tends to be and, lastly, to focus on the long term to achieve your goals.

TIME, DIVERSIFICATION, AND THE VOLATILITY OF RETURNS

Source: JP Morgan



ECONOMIC DATA

- The Administration's sweeping tariff policy has increased uncertainty, prompting a reassessment of both U.S. and global economic growth. Forecasts have been adjusted downward, with U.S. growth now projected at 1.8% and global growth at 2.4% for 2025. Looking ahead to 2026, consensus estimates place global growth at 2.5%, with U.S. growth expected to remain steady at 1.8%.
- S&P 500 earnings were $208 (+48%) in 2021, $219 (+5%) in 2022, $220 (+1%) in 2023, and $243 (+10%) in 2024 (FactSet). For 2025, analysts have trimmed earnings to $266 and are projecting earnings growth of 9% and revenue growth of 5.0%.
- Valuations continue to be above the long-term historical averages.
- The trailing 12-month operating price-earnings ratio is 22.5 times operating earnings compared to the 5-year average of 24.3 times, the 10-year average of 22.1x, and the 50-year average of 14.2 times earnings.
- The forward operating price-earnings ratio is 20.8 times earnings, which is above the 5-year historical average of 19.9x, above the 10-year average of 18.3x, and the 30-year average of 16.9 times earnings.

MONTHLY **INVESTMENT OUTLOOK** | MAY 2025

MARKET RECAP (AS OF APRIL 30, 2025)

- April was a roller coaster for the S&P 500 with an intra-month drawdown of 10% followed by a historical turnaround to finish the month down less than 1%.
- Year-to-date, international developed equities have gained 10.8%, and emerging markets are up 3.2%—both outperforming the S&P 500, which declined 4.9%. Value stocks outperformed with a 1.0% decline, while Growth stocks fell 8.4% in the U.S.
- The Bloomberg U.S. Aggregate Bond Index rose 3.2% year-to-date as bond yields moved sharply lower from a mid-January peak.
- Credit continues to be resilient as credit spreads rose modestly but remain below historical levels. Floating rate bank loans rose 0.4%, and emerging market debt gained 2.0%, year-to-date.
- Gold surged to another record high and gained 26% year-to-date, proving its value as a hedge against uncertainty and excess money printing. Oil plunged below $60 and is 17% lower year-to-date.
- Alternatives: Overall, fixed-income substitutes and unconstrained alternatives, have had solid gains matching or exceeding nominal bond returns.

Period Ending April 30, 2025 *Source: Bloomberg.* *Past performance is not indicative of future results.*

		Trailing Performance (annualized for periods > 1 year)					
Asset Class	**Index**	**MTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**
EQUITIES							
Benchmark	MSCI All Country World IMI	0.9	(0.7)	11.1	9.6	12.8	8.4
Large Cap	S&P 500	(0.7)	(4.9)	12.1	12.2	15.6	12.3
Long-Short	[50% S&P 500, 50% ICE 0-3m T-Bill]	(0.2)	(1.8)	8.5	8.3	9.1	7.1
Small/Mid Cap	Russell 2500	(2.1)	(9.4)	1.7	4.1	11.3	7.4
International	MSCI World Ex US IMI (net)	4.7	10.8	13.0	9.1	11.3	5.5
Emerging Markets	MSCI Emerging Markets IMI (net)	1.5	3.2	7.5	3.9	7.1	3.2
FIXED INCOME							
Benchmark	FTSE World Broad Investment Grade	2.9	5.7	8.9	1.4	(1.4)	0.7
U.S. Aggregate	Barclays US Aggregate	0.4	3.2	8.0	2.0	(0.7)	1.5
U.S. TIPS	Bloomberg US TIPS	0.1	4.3	8.1	0.8	1.8	2.5
Tax Exempt	S&P Municipal Bond Index	(0.6)	(0.8)	2.3	2.4	1.4	2.2
U.S. Corp High Yield	Bloomberg US Corporate High Yield	(0.0)	1.0	8.7	6.2	6.3	4.9
U.S. Floating Rate	S&P/LSTA Leveraged Loan	(0.1)	0.4	6.2	7.1	8.0	4.9
International	FTSE Non USD WGBI	5.4	7.8	8.8	(0.6)	(3.3)	(0.5)
Emerging Markets	JPM Emerging Markets	(0.2)	2.0	8.8	5.3	3.0	3.0
REAL ASSETS							
Benchmark	Gold	5.4	25.7	44.1	20.2	14.4	10.9
Inflation	*Consumer Price Index (CPI)*	0.0	0.6	2.1	3.6	4.5	3.1
Commodities	Bloomberg Commodities	(4.8)	3.6	4.1	(3.7)	13.7	1.7
ALTERNATIVES							
Benchmark	[20% S&P 500, 80% ICE 0-3m T-Bill]	0.1	0.1	6.4	6.0	5.3	4.0
Multi-Strategy	Credit Suisse Multi-Strategy I		3.4	6.5	5.6	7.9	5.2
Global Macro	Credit Suisse Global Macro Ind		3.5	3.6	0.1	8.2	4.7
Managed Futures	Credit Suisse Managed Futures		(1.7)	(9.3)	(0.1)	5.4	2.0